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Export Subsidies and Profit-Shifting in Vertical Markets

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"Export Subsidies and Profit-
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Export subsidies have long

been a prominent feature in trade policies in many countries. The United States and European Union (EU) both apply export subsidies, but in starkly different ways. The United States has typically targeted most of its export subsidies at unprocessed agricultural commodities—such as wheat and oilseeds, although not in the last 5 years—while the EU has targeted most of its export subsidies at high-value products. Since agricultural markets are often characterized by noncompetitive elements, export subsidies will possibly have different effects, depending on whether the subsidies are targeted at the unprocessed agricultural commodity, intermediate good, or final processed good.

This study concludes that reductions in export subsidies can benefit U.S. processing firms in two ways. First, if the EU were to lower export subsidies targeted at final processed goods, U.S. processing firms would then increase their market share and profits at the expense of the EU firms. Second, if the United States were to reduce export subsidies targeted at the unprocessed agricultural commodities, upstream processing costs would decline in the United States and rise in the EU.

